

India Banks- Jul'25 update

Pick-up in credit growth; PSUs raise rates on fresh loan & NBFC yield hardens



According to the latest fortnightly data (as of 8th Aug'25), system credit growth inched up to 10.2% YoY (vs. 9.9% YoY in 11th Jul'25), while deposit growth was steady at 10.1% YoY. RBI's sectoral credit data shows system credit growth improving to 9.9% YoY in Jul'25 (vs. 9.3% in Jun'25), led by broad-based pickup across segments barring retail. MSME credit growth accelerated to 19.1% YoY (vs. 17.4% in Jun), while services and agri credit growth also improved to 10.6% and 7.3% YoY, respectively. Retail loan growth moderated slightly to 11.9% YoY (vs. 12.1% in Jun), led by slower vehicle/unsecured loan growth (~8.9%/8.0% vs. 10.8%/8.6% in Jun). Credit to NBFCs remained muted at ~3% YoY.

RBI, in its recent policy meeting, held policy rates steady, partly to ensure that the effects of the earlier front-loaded cuts get transmitted. However, on a MoM basis, banks raised lending rates on fresh loans by ~18bps (PSU/FB up ~31/18bps MoM, Pvt banks down ~16bps MoM), while WADTDR on fresh deposits has been cut by ~8-21bps across all banks, which should help ease pressure on NIMs. In Jul'25, the gap between lending and deposit rates on fresh loans has improved for PSU banks by ~48bps MoM, much higher than ~5bps for Pvt. banks. On O/s basis as well, the gap between lending and deposit rates has improved by ~5bps MoM for PSU banks and declined by 5bps MoM for Private banks. Large banks have also kept the 1-3Y TD rates largely steady MoM after ~55-90bps cumulative cuts since Feb'25.

Yields rose last month with NBFC AAA bond yield rising by ~15-20bps MoM and NBFC AA bond yield rising by ~20-30bps MoM, which may put pressure on cost of funds for NBFCs.

We prefer banks over NBFCs in financials and continue to prefer large banks in banks given their stronger return profiles, better liability franchises, lower asset quality risk and attractive valuations relative to growth. Our preferred names in banks are: ICICI, HDFC Bank, SBI, Axis and CUBK.

- **Segment-wise loan growth trends:** System retail credit growth moderated to 11.9% YoY in Jul'25 (vs 12.1% YoY in Jun'25). This was primarily led by a decline in the vehicle loan growth to 8.9% YoY (vs. 10.8% YoY in Jun'25). Housing loan (HLs) growth was flat at 9.6% YoY. Within housing, priority HLs grew sharply at ~26% YoY (vs. ~14% YoY in Jun' 25). This was, however, offset by a sharp decline in non-priority HLs growth to ~4% (vs. 8% YoY in Jun'25). Unsecured retail loans growth declined to 8.0% YoY (vs. 8.6% YoY in Jun-25). Overall credit growth was supported by credit to MSMEs growing at 19.1% YoY (25-month high, vs. 17.4% YoY in Jun'25) and loans to services growing at 10.6% YoY (vs. 9% YoY in Jun'25). Notably, MSME credit growth continues to grow despite emerging concerns around stress in the segment. Agricultural credit inched up to 7.3% YoY (vs. 6.8% YoY in Jun '25). Industrial credit growth also inched up to 6% YoY (vs 5.5% YoY in Jun '25). However, despite the RBI's revision of risk weights on loans to NBFCs in Feb '25, credit growth to NBFCs was flat at ~3% YoY.
- **System liquidity remains in surplus; Yields rise:** System liquidity remained in a surplus of ~INR 2.4trln as of end-Aug '25. The first 25bps cut in CRR requirement is expected to begin from 6th Sep, which should further boost liquidity and aid credit growth. FX reserves fell MoM to USD 691bn as of 22nd Aug'25 (vs. USD 698bn as of 25th Jul'25). Currency-in-circulation inched up to INR ~37.9trln as of 15th Aug'25 (vs. INR 37.7trln as of 18th Jul'25). As of Aug'25, the benchmark 10-year G-sec yield inched up 19bps MoM to 6.6%, while US 10-year declined by 15bps MoM to 4.2%; as a result, the spread between G-sec and US Treasury yield rose by 34bps to 235bps (vs. ~200bps in Jul'25). The rise in G-Sec yields indicates the bond market is factoring in an end to the rate cut cycle.
- **Our view:** We retain a preference for large private banks over mid-size banks/NBFCs given their stronger return profiles, better liability franchises, lower asset quality risk and attractive valuations relative to growth. **Our pecking order is ICICI, HDFC Bank, SBI, Axis and CUBK.**

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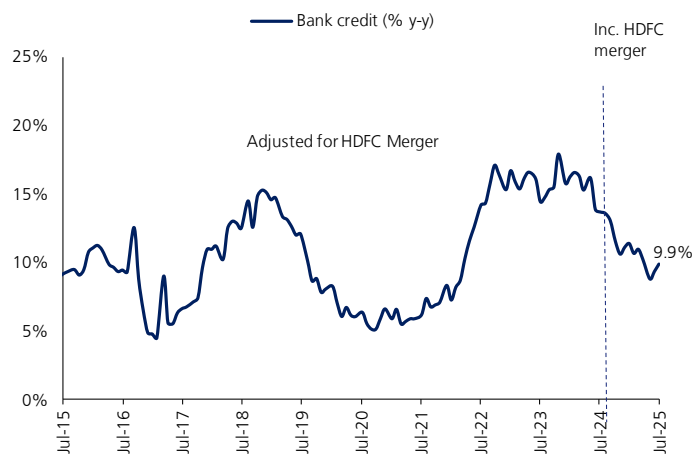
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Exhibit 1. System credit growth trend: Broad-based pick-up across sub-segments excluding retail

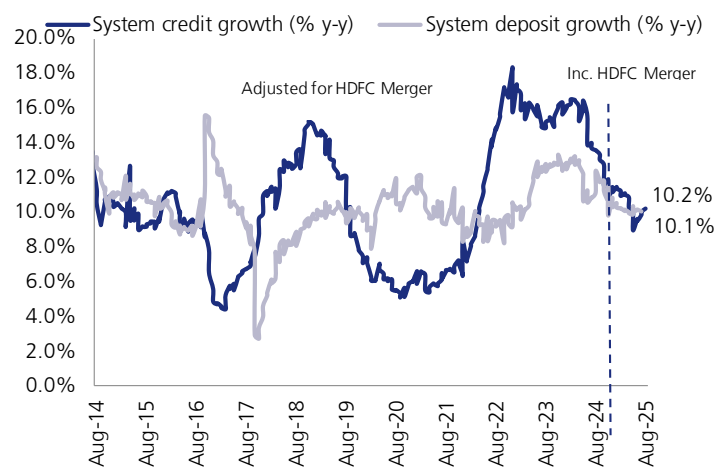
Credit growth (YoY)	Adjusting for merger						Inc. merger			
Segments	FY20	FY21	FY22	FY23	FY24	FY25	FY24	FY25	Jun'25	Jul'25
Overall	6.1%	5.5%	8.7%	15.4%	16.3%	12.0%	20.2%	11.0%	9.3%	9.9%
Agri	8.7%	10.1%	9.9%	18.2%	19.9%	10.4%	19.9%	10.4%	6.8%	7.3%
Industry	3.0%	-1.3%	7.5%	7.1%	7.6%	8.0%	8.1%	7.8%	5.5%	6.0%
MSME	3.2%	15.0%	30.5%	20.9%	14.2%	11.8%	14.2%	11.8%	17.4%	19.1%
Large Enterprises	3.0%	-4.6%	2.0%	2.8%	5.8%	6.2%	5.8%	6.2%	0.8%	0.9%
Within Industry										
Textiles	-4.3%	5.2%	9.3%	3.6%	10.4%	8.3%	10.4%	8.3%	8.6%	6.0%
Metals	-6.2%	-12.3%	-5.5%	19.1%	11.8%	12.8%	11.8%	12.8%	11.0%	9.5%
Power	0.3%	0.0%	7.1%	1.5%	3.7%	6.0%	3.7%	6.0%	7.6%	10.7%
Telecom	27.3%	-21.9%	13.4%	-16.6%	27.1%	-13.9%	27.1%	-13.9%	-21.3%	-17.5%
Roads	3.6%	24.7%	19.5%	5.7%	11.3%	-2.2%	11.3%	-2.2%	-5.7%	-3.5%
Retail	22.2%	10.7%	12.8%	23.4%	17.7%	14.0%	27.5%	11.6%	12.1%	11.9%
Housing	17.6%	9.5%	12.9%	18.1%	17.3%	15.3%	36.7%	10.7%	9.6%	9.6%
Vehicle	38.4%	31.6%	9.3%	24.8%	14.1%	8.6%	14.1%	8.6%	10.8%	8.9%
Unsecured retail	28.2%	3.2%	14.8%	29.4%	20.8%	9.1%	22.5%	8.7%	8.6%	8.0%
Services	12.0%	2.6%	8.5%	24.0%	20.2%	13.4%	22.9%	12.4%	9.0%	10.6%
Real Estate	42.9%	0.1%	0.6%	10.8%	24.1%	22.0%	45.4%	13.6%	14.9%	15.7%
Trade	5.5%	12.8%	10.8%	25.3%	17.6%	15.7%	17.6%	15.7%	10.8%	13.0%
NBFC	36.5%	1.4%	5.4%	31.3%	15.3%	5.7%	15.3%	5.7%	2.6%	2.6%

Source: RBI, JM Financial

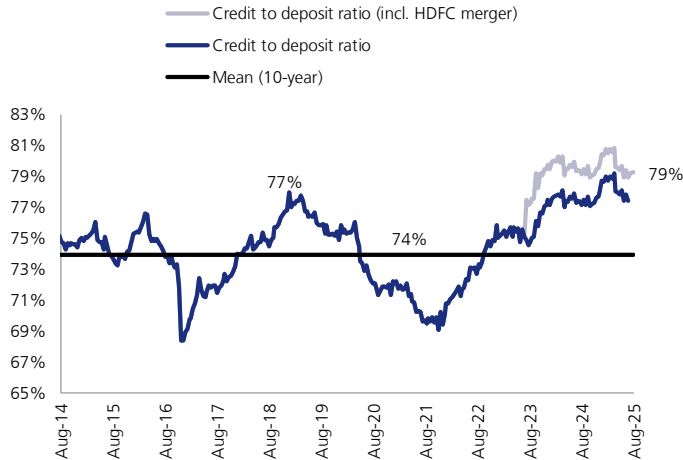
Exhibit 2. Bank credit growth inched up to 9.9% YoY as of Jul'25 (vs. 9.3% YoY in Jun'25)



Source: RBI, JM Financial

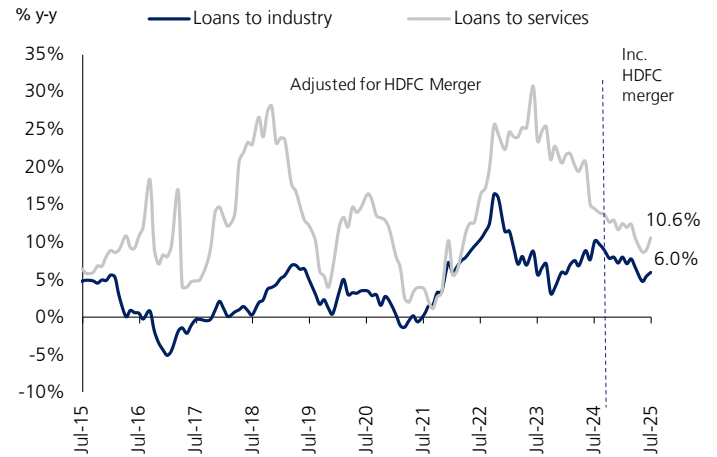
Exhibit 3. System credit growth inched up to 10.2% YoY and system deposit was stable at 10.1% YoY as of 8th Aug'25

Source: RBI, JM Financial

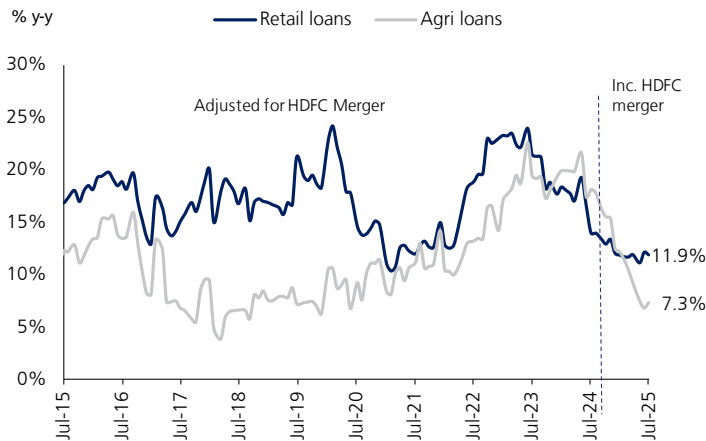
Exhibit 4. CD ratio remains elevated at 79% vs. 10-year average of 74%

Source: RBI, JM Financial

Note: Excluding merger values reporting has been discontinued since Aug-25

Exhibit 5. Loans to industry and services inched up to 6.0% and 10.6% YoY in Jul'25 (vs. 5.5% and 9.0% respectively in Jun'25)

Source: RBI, JM Financial

Exhibit 6. Retail loan moderated to 11.9% YoY (vs. 12.1% YoY in Jun'25) while agri loans inched up to 7.3% YoY (vs. 6.8% YoY in Jun'25)

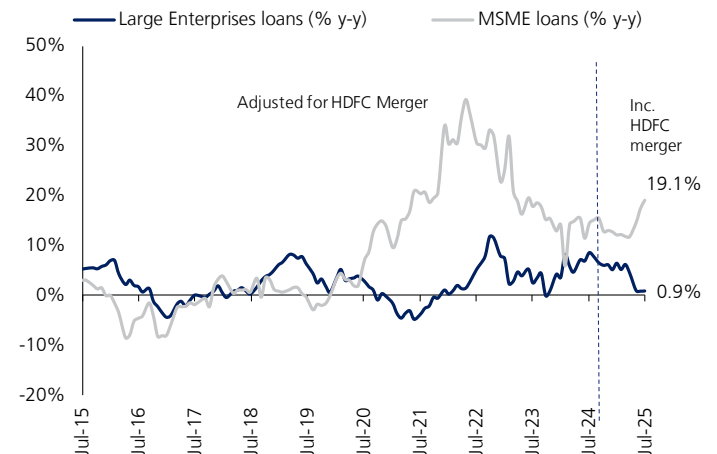
Source: RBI, JM Financial

Exhibit 7. Home loan growth was flat at 9.6% YoY in Jul'25. Priority loans pick-up was sharp at 25.6% YoY (vs. 13.8% YoY in Jun'25)

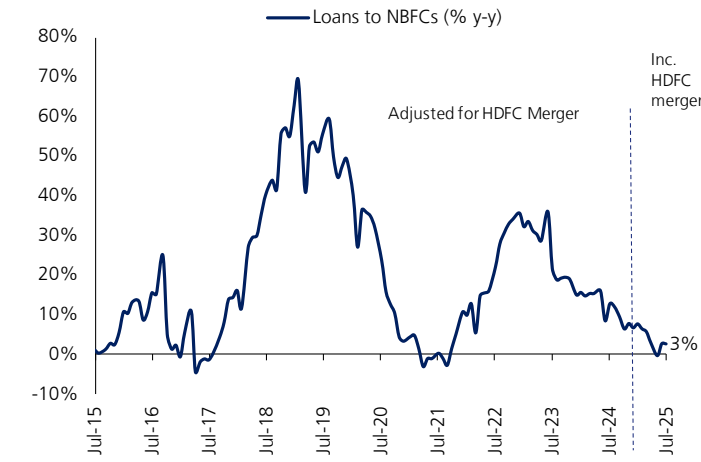
Source: RBI, JM Financial

Exhibit 8. Unsecured retail credit growth moderated to 8.0% YoY in Jul'25 (vs. 8.6% YoY in Jun'25)

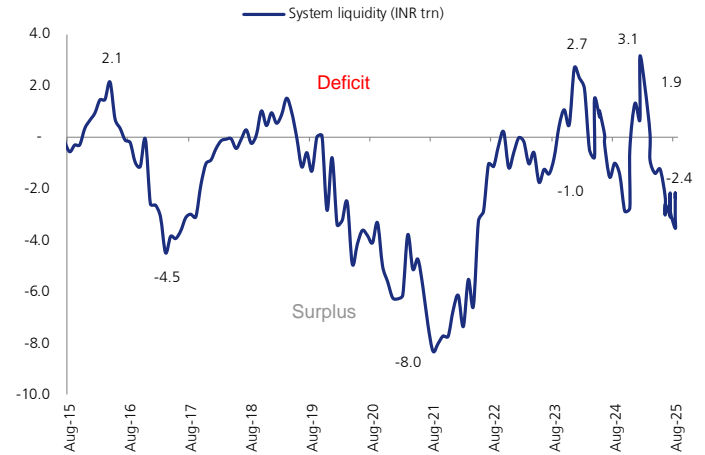
Source: RBI, JM Financial

Exhibit 9. MSME loans grew 19.1% YoY (vs. 17.4% in Jun'25) and large enterprises credit grew 0.9% YoY (vs. 0.8% YoY in Jun'25)

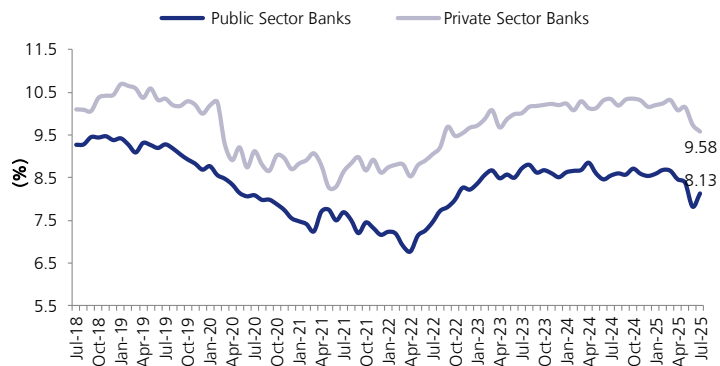
Source: RBI, JM Financial

Exhibit 10. Growth of loans to NBFCs was flat at 2.6% YoY in Jul'25

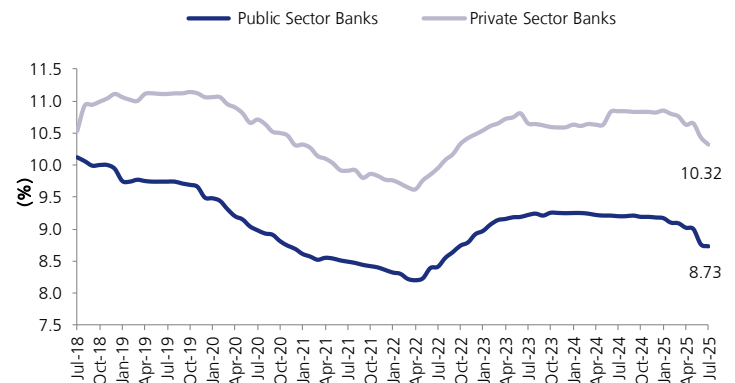
Source: RBI, JM Financial

Exhibit 11. System liquidity has been in a surplus of INR 2.4trln as of 28th Aug'25

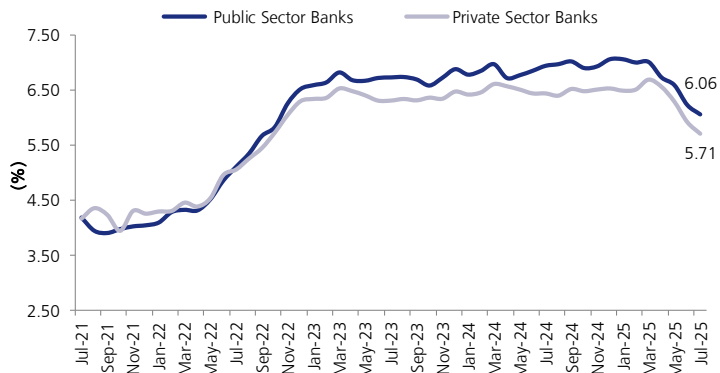
Source: RBI, JM Financial, Latest data as of 31st July, 2025

Exhibit 12. WALR on fresh loans decreased for Pvt Banks to 9.6% (vs. 9.7% in Jun'25); however, it increased for PSU Banks to 8.1% (vs. 7.8% in Jun'25)**WALR (Fresh loans)**

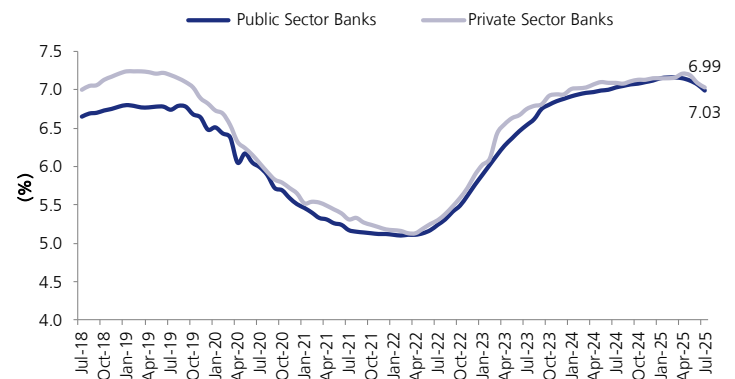
Source: RBI, JM Financial

Exhibit 13. WALR on O/S loans decreased for Pvt Banks to ~10.3% (vs. 10.4% in Jun'25) and for PSBs to ~8.7% (vs. 8.8% in Jun'25)**WALR (Outstanding loans)**

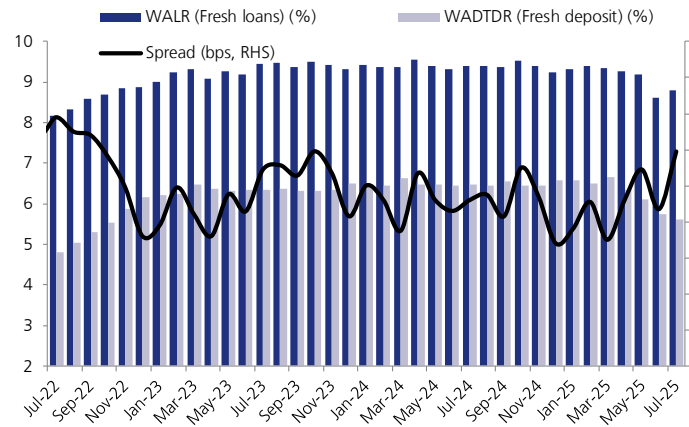
Source: RBI, JM Financial

Exhibit 14. Deposit rate on fresh deposits declined for Pvt Banks to 5.7% (vs. 5.9% in Jun'25) and for PSBs to 6.1% (vs. 6.2% in Jun'25)**WADTDR (Fresh term deposits)**

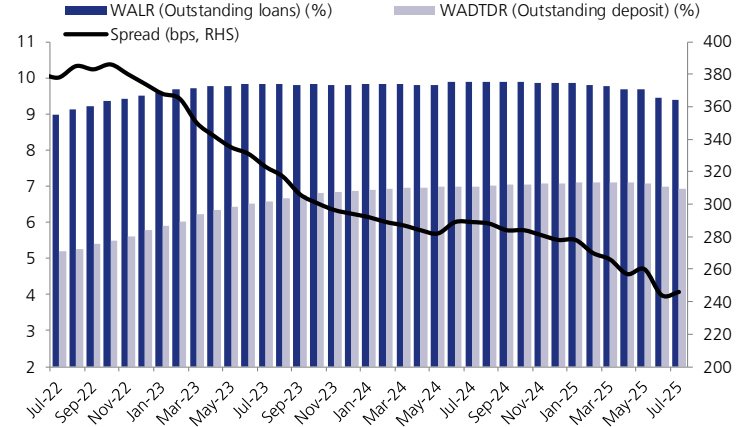
Source: RBI, JM Financial

Exhibit 15. Deposit rate for O/S deposits moderated for PSBs to 7.0% (vs 7.1% in Jun'25) & for Pvt Banks to 7% (vs. ~7.1% in Jun'25)**WADTDR (Outstanding term deposits)**

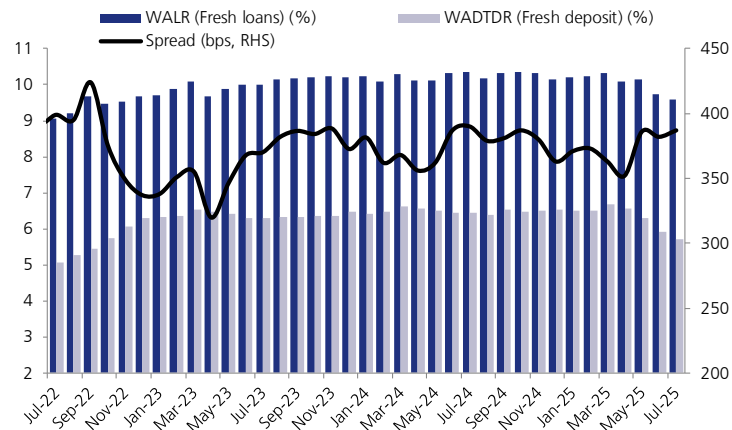
Source: RBI, JM Financial

Exhibit 16. Spread between WALR-WADTDR (fresh loans) for SCBs increased to 319bps in Jul'25 (vs. 287bps in Jun'25)

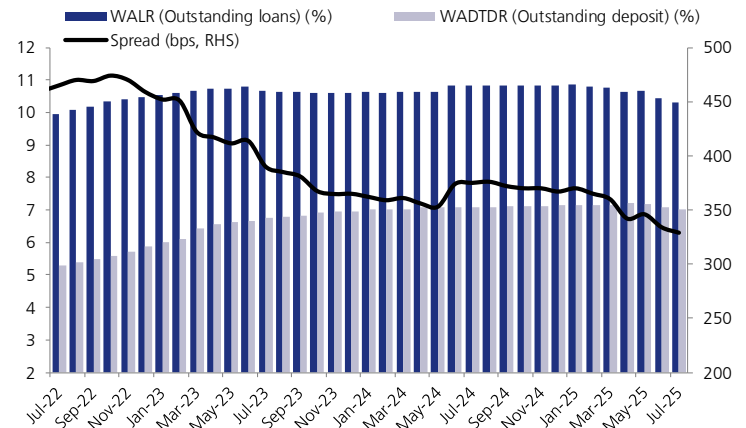
Source: RBI, JM Financial

Exhibit 17. Spread between WALR-WADTDR (o/s loans) for SCBs marginally increased by 2bps MoM in Jul'25 to 246bps

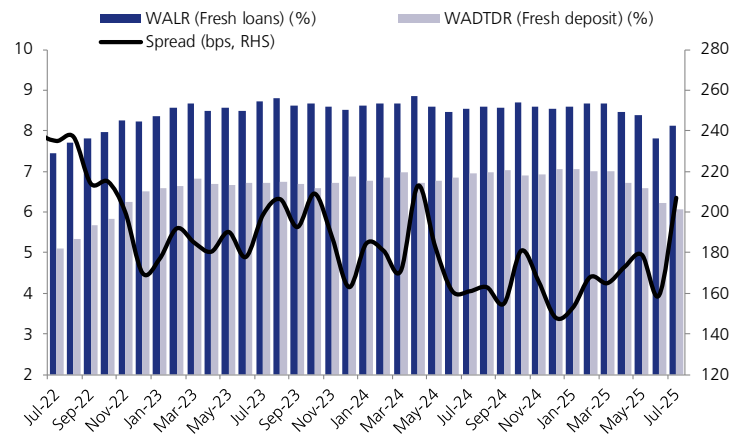
Source: RBI, JM Financial

Exhibit 18. Spreads between WALR-WADTDR (fresh loans) for Pvt banks increased by a nominal 5bps in Jul'25

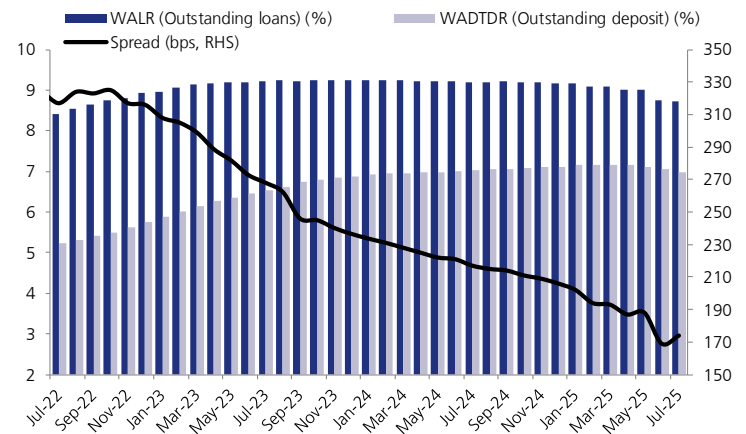
Source: RBI, JM Financial

Exhibit 19. Spread between WALR-WADTDR (o/s loans) for Pvt banks moderated by 5bps MoM in Jul'25 as WALR moderated by a higher 11bps m-m vs. a 6bps decline in WADTDR

Source: RBI, JM Financial

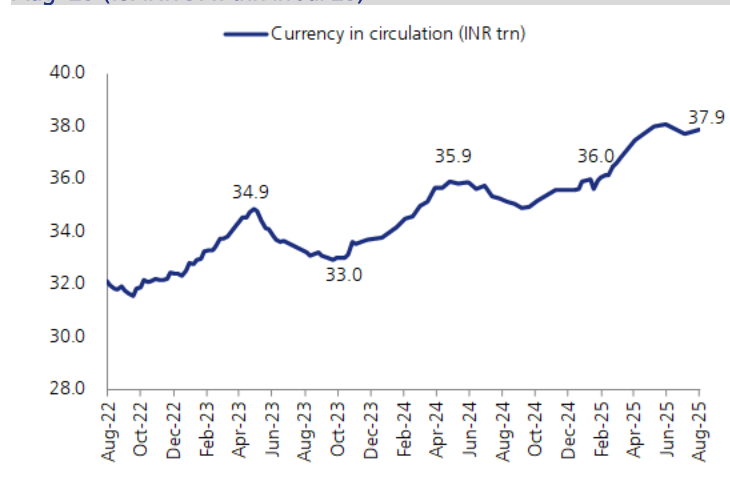
Exhibit 20. Spreads b/w WALR-WADTDR (fresh loans) for PSBs have increased sharply by 48bps MoM to 207bps (vs. 159bps in Jun'25)

Source: RBI, JM Financial

Exhibit 21. Spread between WALR-WADTDR (o/s loans) for PSBs marginally increased by 5bps MoM in Jul'25 to 174bps

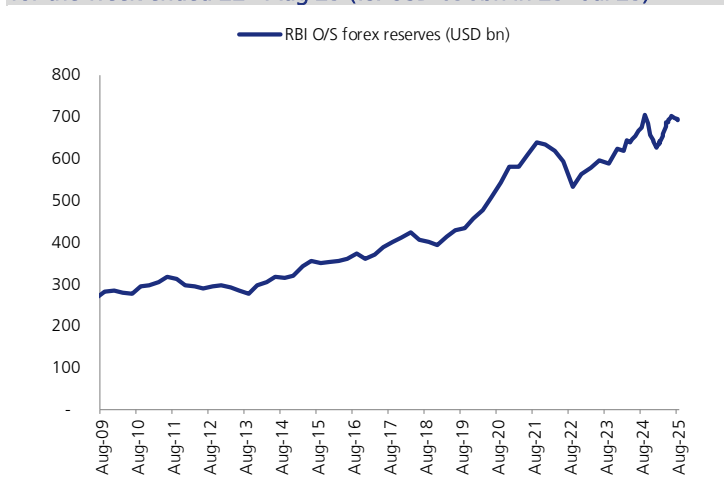
Source: RBI, JM Financial

Exhibit 22. Cash in circulation inched up slightly to INR 37.9trln in Aug '25 (vs. INR 37.7trln in Jul'25)



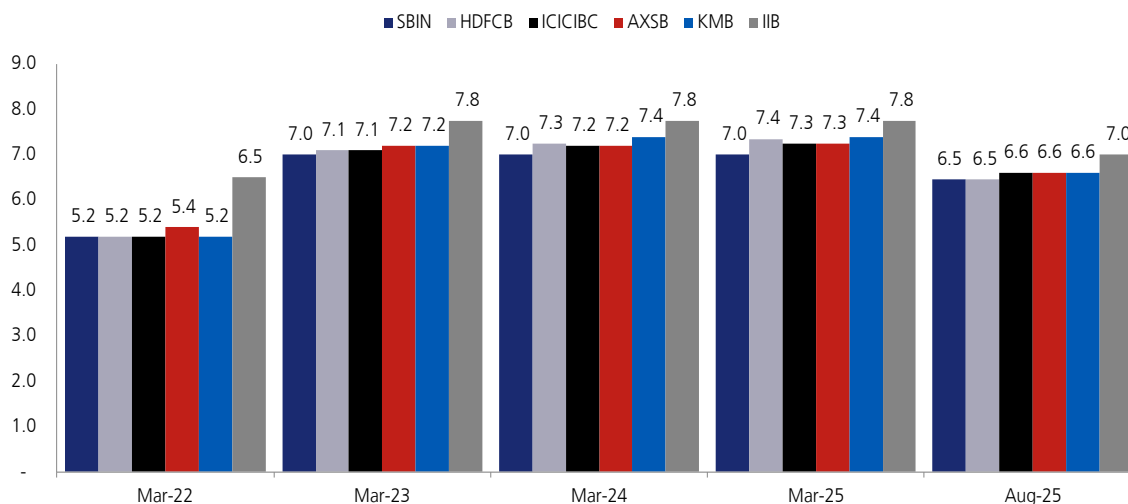
Source: Bloomberg finance L.P., JM Financial

Exhibit 23. RBI's outstanding forex reserves moderated to USD 691bn for the week ended 22nd Aug'25 (vs. USD 698bn in 25th Jul'25)



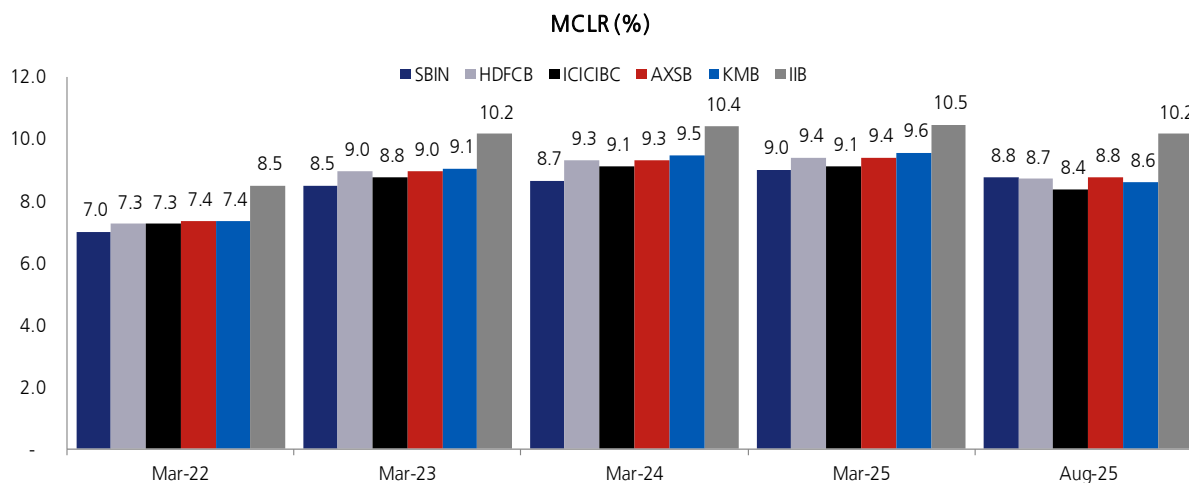
Source: RBI, JM Financial

Exhibit 24. TD Rate (1-3 year bucket) for most large banks have decreased since Mar'25, in line with repo cuts; however, rates have been held steady on a MoM basis



Source: Company, JM Financial

Exhibit 25. MCLR for most large banks have seen a marginal decline of 5-15bps MoM



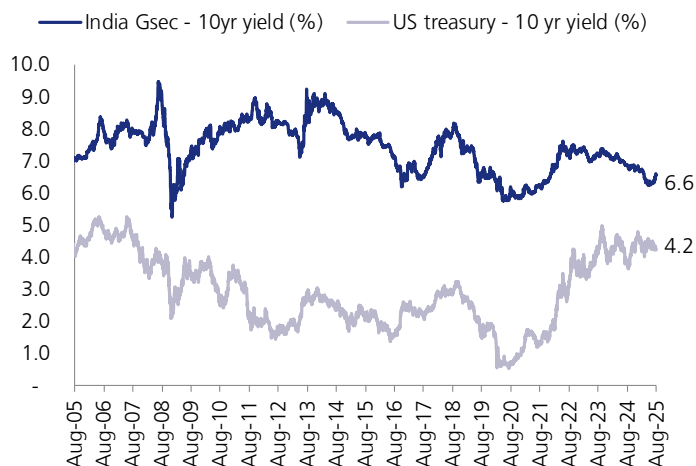
Source: RBI, JM Financial

Exhibit 26. Interest rates of G-Sec, corporate bonds and NBFC bonds (%)

Rates	Interest rates				Change in rates (in bp)		
	29-Aug-25	31-Jul-25	30-Aug-24	31-Jan-25	m-m	y-y	31-Jan to 31-Aug
Repo	5.5	5.5	6.5	6.5	-	(100)	(100)
Gsec - 1 year	5.6	5.6	6.7	6.6	4	(112)	(97)
Gsec - 3 year	6.1	5.9	6.8	6.6	22	(66)	(53)
Gsec - 5 year	6.3	6.1	6.8	6.6	22	(48)	(34)
Gsec - 10 year	6.6	6.4	6.9	6.7	19	(30)	(13)
Corporate Bonds							
AAA - 1 year	6.6	6.4	7.8	7.7	19	(115)	(110)
AAA - 3 year	7.0	6.7	7.6	7.5	31	(64)	(52)
AAA - 5 year	7.1	6.8	7.6	7.3	27	(54)	(26)
AAA - 10 year	7.4	7.2	7.5	7.2	16	(10)	19
AA - 1 year	7.3	7.1	8.3	8.3	21	(98)	(97)
AA - 3 year	7.8	7.5	8.3	8.2	28	(49)	(38)
AA - 5 year	7.9	7.6	8.3	8.1	27	(36)	(22)
NBFC Bonds							
AAA - 1 year	6.7	6.5	8.0	7.8	19	(130)	(114)
AAA - 3 year	7.2	7.0	7.9	7.8	15	(73)	(64)
AAA - 5 year	7.2	7.0	8.0	7.6	24	(73)	(36)
AAA - 10 year	7.5	7.4	7.6	7.4	15	(9)	11
AA - 1 year	7.6	7.3	8.4	8.5	29	(84)	(86)
AA - 3 year	8.2	8.0	8.5	8.5	20	(37)	(37)
AA - 5 year	8.2	8.0	8.6	8.4	18	(42)	(24)

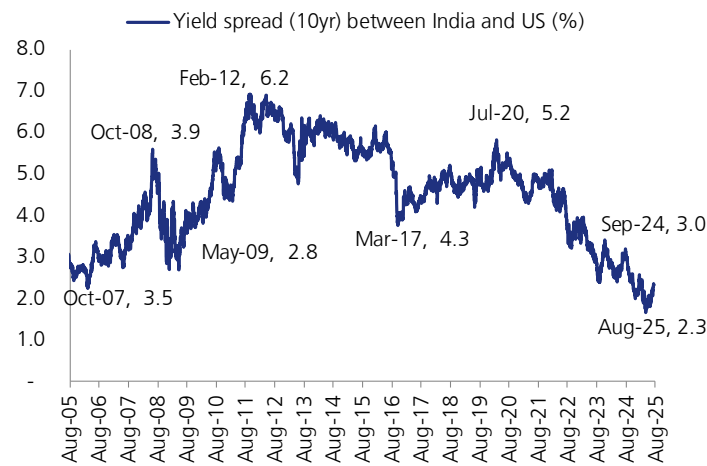
Source: Bloomberg finance L.P., JM Financial

Exhibit 27. 10-year G-sec yield increased 19bps MoM to 6.6%, while US 10-year declined 15bps MoM to 4.2%

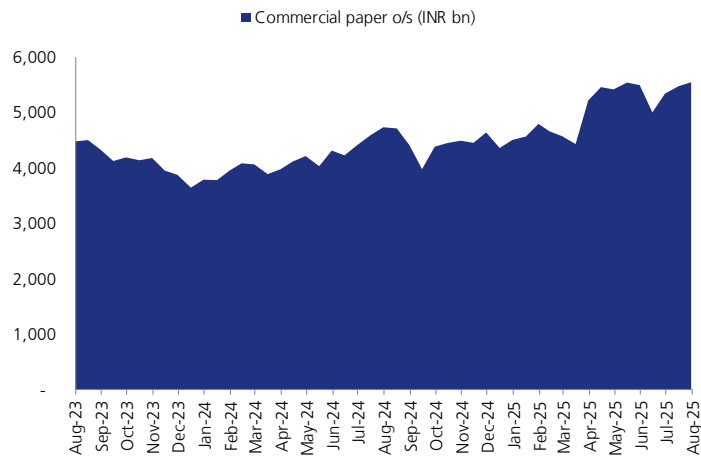


Source: Bloomberg Finance L.P., JM Financial

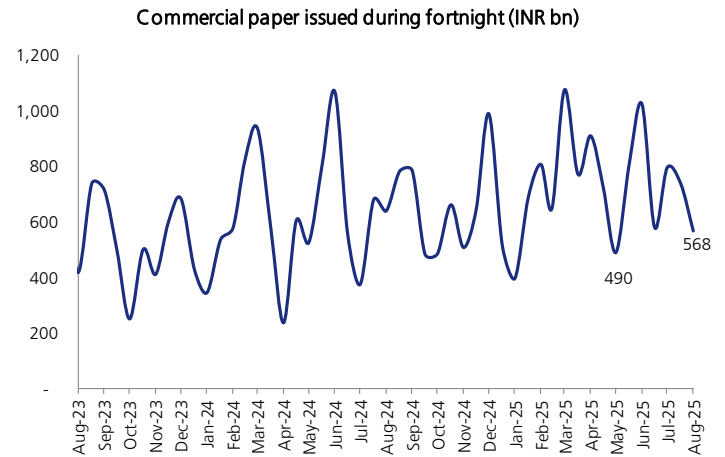
Exhibit 28. Spreads between 10-year yields of India and the US increased to 235bps (vs. ~200bps in Jul'25)



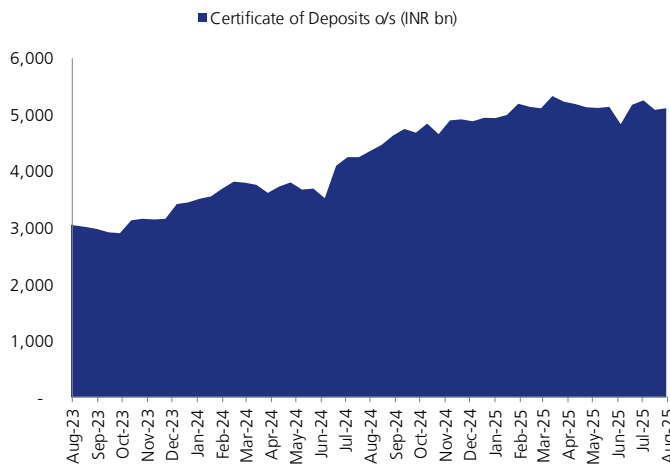
Source: Bloomberg Finance L.P., JM Financial

Exhibit 29. Outstanding CPs increased by ~4% MoM (as of 15th Aug'25)

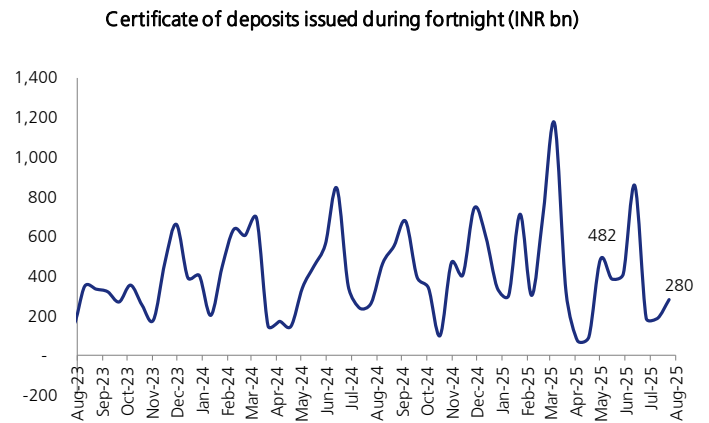
Source: RBI, JM Financial

Exhibit 30. CP issuances decreased by ~29% in the fortnight ending 15th Aug'25

Source: RBI, JM Financial

Exhibit 31. Outstanding CDs declined by ~3% MoM (as of 8th Aug'25)

Source: RBI, JM Financial

Exhibit 32. CD issuances increased by ~51% MoM in the fortnight ending 8th Aug'25

Source: RBI, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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